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C O N F I D E N T I A L SECTION 01 OF 02 TBILISI 003146

SIPDIS

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TAGS: [EPET](#) [ENRG](#) [PREL](#) [GG](#) [AJ](#) [RU](#) [TU](#)
SUBJECT: GEORGIA: NOT QUITE THERE ON ENERGY INDEPENDENCE
FROM RUSSIA BUT MORE COMFORTABLE THAN 2006

REF: A. TBILISI 2657

[B](#). BAKU 1456
[C](#). 06 TBILISI 2949

Classified By: Ambassador John F. Tefft, reason 1.4(b) and (d).

[1](#). (C) Summary: Georgia should be able to meet at least 3.5 million of its total 7 million cubic meter per day natural gas needs from Azerbaijan, in the early part of 2008. The rest will have to be purchased from Gazprom. The 2008 Gazprom price is expected to be higher than 2006, but not to double as in years past. Azeri gas will be more expensive as well, but its availability acts as a deterrent to intentional stoppage of supply from Russia. Georgia's capacity to receive gas from Azerbaijan now nearly equals its daily needs, but actual supply will depend on negotiations with the GOA, which are ongoing. The government is not talking about buying Iranian gas, except in a dire emergency. End Summary.

[2](#). (C) Georgia finds itself in a more comfortable position with regard to its energy needs in the winter of 2007-2008 than it did in 2006-2007, but is not entirely free of worries. According to GOG estimates, Georgia will need 8.8 million cubic meters (cm) of gas per day in January to serve all residential, commercial and industrial customers and generate electricity to supplement what is available from hydropower sources. The similar figures for February and March are 7.5 million and 7.2 million, respectively. However, Georgia used less than 7 million cm in January 2007 and has ample supplies of hydropower that mean it will probably use a similar amount in January 2008. April consumption will be far less as the weather warms and thermal electricity units at Gardabani begin to go off-line.

[3](#). (C) Unlike last year, Georgia has a reliable supply of gas from the SCP (Shah Deniz) pipeline, 200 million cm per year free in return for transit, plus an additional 50 million cm at \$55 per thousand cubic meters (tcm). This "transit gas" has been running about 1 million cm per day in December. BP informs us that the offtake from SCP is being upgraded to handle as much as 4-5 million cm per day, and could even handle 8 million on an emergency basis for a short time. About 1 million cm is available to Georgia in return for transit of gas from Russia to Armenia. Azerbaijan is supplying Georgia with 1.5 million cm of gas per day over a second pipeline, separate from SCP, until January 15. Last year, this pipeline had an estimated capacity of 3 million cm per day, and with ongoing upgrades, it may have as much as 4 million cm this year.

14. (C) As of late December, the government continues negotiations with Azerbaijan for 2008 natural gas from non-SCP Azeri sources. These negotiations have been hampered by Azeri concerns about the availability of re-injected gas used to support oil production from the ACG field (ref B). However, according to BP, the Azeris seem more relaxed about their winter gas situation than they were earlier in the year, which is beneficial to Georgia. Another supply possibility, which apparently is as yet unexplored, arises from the possibility that Turkey may not be able to take its full commitment of gas from SCP. In that event, Azerigas has first call, and could sell Turkey's unused share to Georgia. The 2007 price for Azeri gas imported to Georgia was \$120 per tcm. The GOG has not been forthcoming about what it thinks the 2008 price will be, but it is likely to be higher, in the range of \$150-190, based on conversations with BP and with KazTransGaz, which supplies Tbilisi residential customers.

15. (C) Thus, we roughly estimate that under normal circumstances, and assuming agreement can be reached on continued supply from Azerbaijan, Georgia will have at least 3.5 million cm of gas per day from Azerbaijan and from Armenian transit to meet its estimated 7 million cm per day January consumption. The rest, 3.5 million cm, will have to be purchased from Gazprom in Russia unless Azerbaijan is more generous in the still ongoing negotiations with Georgia. The upgrades to the SCP offtake and the other Azeri pipeline suggest that in a pinch, if no gas were available to Georgia from Russia, Azerbaijan could supply nearly all of Georgia's needs -- if the will is there and the price is right. This fact, coupled with Armenia's continuing dependence on Russian gas, is Georgia's best deterrent to an intentional interruption of supply from Russia, such as is alleged to have occurred in January 2006. It may also explain why the GOG is not showing the level of concern about winter gas

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supply that it did in late 2006.

16. (C) Russian gas is expensive. However, the Georgian economy absorbed a quadrupling of the price of gas from Russia since 2005, along with the Russian embargo, and still grew more than 10 percent in 2007. Georgian gas consumers' contracts with Gazprom all run out on December 31. Gazprom will undoubtedly seek a price increase for 2008 in its negotiations with the consumers. The Georgian government does not conduct negotiations with Gazprom or with Russia directly. We spoke to Geno Malazonia, General Director of Energy Invest, which uses gas for fertilizer production and electricity generation. He said that Gazprom has not yet said what price it will seek, but that he expects a 10% or so increase. Earlier this year, KazTransGaz's general director suspected that Gazprom would charge about \$270 per tcm, compared to 2007's \$235. Such an increase will contribute to Georgia's problems with controlling inflation and to the lower estimate of growth expected for 2008 -- only 6% according to the Ministry of Finance, mostly because of the political uncertainty affecting foreign investment. Tbilisi consumers are feeling the pinch from a nearly 50% increase in the residential gas tariff in April 2007. They will likely see further increases in 2008.

17. (C) Georgian officials continue to assure us they have no intention to purchase gas from Iran. However, Deputy Minister of Energy Giorgi Abdushelashvili told us on December 20 that the GOG would consider talking to Iran if it faces "nationwide freezing", as occurred in January 2006. However, based on the analysis above, this seems to be a remote possibility at this point.

TEFFT